

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE, Chairman

BOB STUMP

BOB BURNS

TOM FORESE

ANDY TOBIN

Arizona Corporation Commission

DOCKETED

JUN 15 2016

DOCKETED BY

2016 JUN 15 P 4: 30

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
AGUA FRIA WATER DISTRICT, HAVASU
WATER DISTRICT, AND MOHAVE
WATER DISTRICT.

DOCKET NO. W-01303A-10-0448

NOTICE OF COMPLIANCE
FILING

WHITE TANKS HOOK-UP FEE
SURCREDIT &

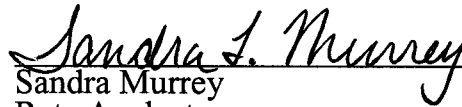
NON-FIRM TREATMENT
SERVICES CREDIT

EPCOR Water Arizona Inc. ("EWAZ") hereby makes its annual filing, as per the Settlement Agreement (Decision No. 73145) to update the White Tanks Hook-Up Fee Surcredit for Agua Fria Water District customers effective July 1, 2016.

As the attachments indicate, the amount of White Tanks Hook-up fees collected during the twelve-month period June 1, 2015, thru May 31, 2016, was \$1,867,888. The monthly basic service surcredit by customer class and meter size along with the commodity surcredit are displayed on page 1 of the attachments. For example, the monthly surcredit for Residential 5/8" and 3/4" meter customers is **(\$0.96) as well as (\$0.1411) per 1,000 gallons consumed.** These surcredits are automatically effective July 1, 2016, and will appear as separate line items on customer bills.

There have not been any sales of non-firm treatment services for the prior twelve month period.

RESPECTFULLY SUBMITTED on June 15, 2016.



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ORIGINAL and thirteen (13) copies
filed on June 15, 2016, with:

The Arizona Corporation Commission
Utilities Division – Docket Control
1200 W. Washington Street
Phoenix, Arizona 85007

Copy of the foregoing emailed
on June 15, 2016, to:

Brian K. Bozzo
Compliance and Enforcement Manager
Utilities Division
1200 W. Washington Street
Phoenix, Arizona 85007

\$78,926,399. The total amount of the White Tanks O&M Deferral to be amortized over three years is \$2,942,870.

- (b) For purposes of settlement only, the Parties agree that the White Tanks Plant was a reasonable and prudent investment and is used and useful in serving ratepayers in the Agua Fria Water District

3.2 The Parties further agree that the revenue increases for the Agua Fria District shall be phased in over three years in twelve-month increments as follows:

Period ⁴	Percentage Increase ⁵	Revenue Increase ⁶
July 1, 2012 to June 30, 2013	39%	\$9,437,026
July 1, 2013 to June 30, 2014	9.5%	\$11,735,788
July 1, 2014 to June 30, 2015	9.5%	\$14,034,551

The Company⁷ agrees to forgo authorized lost revenue and carrying costs on authorized lost revenue during the term of the phase-in as set forth above. In the first period, lost revenue is \$4,597,525. In the second period, lost revenue is \$2,298,763. In the third period, lost revenue is \$0.

3.3 Upon approval of new rates in this rate case, and until new rates are approved in AAWC's next rate case for the Agua Fria Water District, AAWC agrees to the following:

- (a) To credit customers with the revenue requirement equivalent of non-refundable hook-up fees actually collected under its existing White Tanks HUF Tariff Part B. Such credit would commence in Year 2 of the phase-in and continue each subsequent year until new rates are approved. The amount of the credit shall be based on the prior 12 months actual non-refundable payments and be shown as a special line item on customer bills. The formula for such credit is set forth in Exhibit B. While the credit will be determined annually, it will be applied to customers' monthly bills. AAWC and Staff agree to work together on a plan of administration for the timely provision of these credits to customers. The Company shall file an annual report showing how the credits were calculated and the report is subject to the review and approval of the Commission. In support of this provision, with new developer agreements in the WTWTP service area, the Company shall encourage payment of hook-up fees over the development of wells to maximize the level of hook-up fees collected.
- (b) To credit customers with sales of non-firm treatment services, if any, based on incremental revenues from sales minus expenses in excess of amounts in rates as described in Exhibit C. Such credits will commence in Year 2 of the phase-in period based on 18 months available sales data for non-firm treatment services

⁴ This assumes an effective date of new rates of July 1, 2012 and will be adjusted accordingly.

⁵ The adjusted test year revenues are the denominator for all three periods.

⁶ Total annual revenue increase to date as set forth in the schedules.

⁷ Any reference to AAWC or the Company which creates a binding obligation shall also be a binding obligation on any of its successors, assigns or subsequent owners, or shareholders.

based revenues. In Year 3 of the phase-in and each subsequent year until new rates are approved, the credit will be based on sales of non-firm treatment services accruing in the prior 12 months using the same formula. The purpose of this section is to provide AF customers with a credit from the sales of treatment services using the existing WTWTP. While the credit will be determined annually, it will be applied to customers' monthly bills. This credit will also be shown separately with the HUF-related credit. AAWC and Staff agree to work together on a plan of administration for these credits. The Company shall file an annual report showing how the credits were calculated and the report is subject to the review and approval of the Commission.

- (c) That AAWC's next rate case filing shall use a test year including at least six months of actual experience with the final phase of rates contemplated in section 3.2 above.

3.4 The non-potable irrigation rate for the Corte Bella Golf Club shall be \$.92 per 1000 gallons.

4. Additional Terms of Settlement – Mohave and Havasu Water District

4.1 Regarding non-revenue water in the Mohave and Havasu Water Districts, this Agreement reflects the concurrence of AAWC and Staff as follows:

- (a) Despite AAWC's reasonable efforts since the last rate case to reduce non-revenue water for these districts, the levels of non-revenue water in certain systems in the two districts remains above the desired levels.
- (b) Rather than concede that further reduction is not possible and/or economically viable, AAWC agrees to develop five-year plans for reducing non-revenue water in both the Mohave Water District and Havasu Water District. The plans shall be based on leak survey and system analysis performed by AAWC to determine the most cost effective approach to reducing water loss. Such plans should be approved by Commission Staff and filed by AAWC in this docket by March 1, 2013.
- (c) The revenue requirements and rates for the Mohave and Havasu water districts reflect adoption of Staff's adjustment GWB-13 relating to non-revenue water.
- (d) AAWC's efforts since this Rate Case was filed, coupled with its commitment to continue to address non-revenue water, renders Staff's recommended suspension of new rates unnecessary in this Docket.

4.2 Regarding the Company's request for an infrastructure system replacement surcharge, the Company agreed to withdraw that request in this Rate Case.

EPCOR Water Arizona, Inc.
White Tanks Hook-Up Fee Surcredit Calculation
Effective July 1, 2016

Line No.	Meter Size	Number of Customers @ May 31, 2016	Meter Multiples	Equivalent Meters	Monthly Basic Service Surcredit
1	Agua Fria Residential 5/8" & 3/4"	36,266	1.0	36,266	\$ (0.96)
2	Agua Fria Residential 1"	5,847	2.5	14,618	\$ (2.40)
3	Agua Fria Residential 1-1/2"	138	5.0	690	\$ (4.80)
4	Agua Fria Residential 2"	137	8.0	1,096	\$ (7.68)
5	Agua Fria Residential 3"	1	16.0	16	\$ (15.36)
5	Agua Fria Commercial 5/8" & 3/4"	101	1.0	101	\$ (0.96)
6	Agua Fria Commercial 1"	225	2.5	563	\$ (2.40)
7	Agua Fria Commercial 1-1/2"	296	5.0	1,480	\$ (4.80)
8	Agua Fria Commercial 2"	470	8.0	3,760	\$ (7.68)
9	Agua Fria Commercial 3"	62	16.0	992	\$ (15.36)
10	Agua Fria Commercial 4"	3	25.0	75	\$ (24.00)
11	Agua Fria Commercial 6"	4	50.0	200	\$ (48.00)
12	Agua Fria Commercial 8"	-	80.0	-	\$ (76.80)
13	Agua Fria Irrigation	-	8.0	-	\$ (7.68)
14	Agua Fria OPA - State Prison	1	16	16	\$ (15.36)
15	Total	43,551		59,872	

CALCULATION OF CUSTOMER CREDIT BASED ON WHITE TANKS HOOK-UP FEES COLLECTED FROM JUNE 1, 2015 THROUGH MAY 31, 2016:

	Basic Service Surcredit (45%)	Commodity Surcredit (55%)
Calculation of Surcredit		
Current Period - Total Annual White Tanks Hook-Up Fee Surcredit to Customers	\$ (1,484,927) (see pg 2 & 3)	
True-Up: Prior Period Customer Surcredits	\$ (44,490) (see pg 4)	
Total to be Refunded in Current Period	<u>\$ (1,529,417)</u>	

Basic Service Revenue - 45% of Surcredit	\$ (688,238)	
Commodity Revenue - 55% of Surcredit	\$ (841,179)	

Monthly Surcredit Per Equivalent Meter
Annual Equivalent Meters

718,464

Basic Service Surcredit for 5/8" & 3/4" Meter

\$ (0.96)

** See above table for basic service surcredit for other meter sizes

Total Consumption, kgal (year ending 5/31/2016)

5,961,559

Commodity Surcredit per kgal

\$ (0.1411)

EPCOR Water Arizona, Inc.
White Tanks Hook-Up Fee Surcredit Calculation
Effective July 1, 2016

PRE-TAX RATE OF RETURN CALCULATION:

Line No.	Description	Percent	Cost Rate	Weighted Cost	Pre-Tax ROR	NOI After Tax Deduction For Interest	After-Tax WACC
1	Long-Term Debt	47.38%	5.66%	2.68%	2.680%	61.40%	1.64552%
2	Short-Term Debt	11.35%	0.41%	0.05%	0.050%	61.40%	0.03070%
3	Stockholder's Equity	41.27%	10.60%	4.37%	4.370%	100.00%	4.37000%
4	Total			7.10%	7.100%		6.04622%
5						GRCF	1.6609
6	Weighted Cost of Debt			2.73%		Pre-Tax ROR	10.042%

Notes and Source:

Lines 1 thru 6 - Letter of Intent filed on December 8, 2011

Combined Income Tax Rate:

Combined Tax Rate 38.60%
61.40%

CALCULATION OF CUSTOMER CREDIT BASED ON WHITE TANKS HOOK-UP FEES COLLECTED JUNE 1, 2014 THROUGH MAY 31, 2015:

Line No.	Description	
1	Total Unamortized White Tanks Hook-Up Fees (see pg 2)	\$ (11,432,677)
2	Times: Pre-Tax ROR	10.042%
3	Pre-Tax ROR Portion of Credit	\$ (1,148,089)
4	Total Cumulative Annual White Tanks Hook-Up Fees (see pg 2)	\$ (12,248,668)
5	Times: Composite Rate of Amortization	2.750%
6	Annual Amortization of Hook-Up Fee Portion of Credit	\$ (336,838)
7	Total Annual White Tanks Hook-Up Fee Credit	\$ (1,484,927) (to pg 1)

CONVERTING WHITE TANKS HOOK-UP FEES INTO A REVENUE REQUIREMENT EQUIVALENT REDUCTION Effective July 1, 2016

Amortization of White Tanks Hook-Up Fees		For the 12 months June 1 to May 31					Total	Cumulative	Cumulative	
		<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Cumulative WT HUF</u>	<u>Yearly CIAC Amortization</u>	<u>Unamort CIAC YE Balance</u>
White Tank Hook-Up Fee Component B actual payments:		1,515,903	4,011,134	4,853,744	1,867,888	-	-	12,248,668		
CIAC Amort Rate	2.75%									
	Amortization	<u>(41,687)</u>							(41,687)	1,474,216
	Unamortized CIAC YE Balance	<u>1,474,216</u>								
	Amortization	<u>(41,687)</u>	<u>(110,306)</u>						(151,994)	5,333,356
	Unamortized CIAC YE Balance	<u>1,432,528</u>	<u>3,900,828</u>							
	Amortization	<u>(41,687)</u>	<u>(110,306)</u>	<u>(133,478)</u>					(285,471)	9,901,628
	Unamortized CIAC YE Balance	<u>1,390,841</u>	<u>3,790,521</u>	<u>4,720,266</u>						
	Amortization	<u>(41,687)</u>	<u>(110,306)</u>	<u>(133,478)</u>	<u>(51,367)</u>				(336,838)	11,432,677
	Unamortized CIAC YE Balance	<u>1,349,154</u>	<u>3,680,215</u>	<u>4,586,788</u>	<u>1,816,521</u>					
	Amortization	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>			-	11,432,677
	Unamortized CIAC YE Balance	<u>1,349,154</u>	<u>3,680,215</u>	<u>4,586,788</u>	<u>1,816,521</u>	<u>-</u>				
	Amortization	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>			-	11,432,677
	Unamortized CIAC YE Balance	<u>1,349,154</u>	<u>3,680,215</u>	<u>4,586,788</u>	<u>1,816,521</u>	<u>-</u>				

Revenue Requirement Equivalent Reduction of Prior Year WT HUF Collections - Customer Refunds

Annualized revenue credits BEGINNING July 1:

10.0422% Pre-Tax ROR					
2.75% CIAC Amort Rate					
12.7922% Total					
Based on cumulative Unamortized CIAC balance					
\$ 1,474,216	\$ 193,917	\$ 687,578	\$ 1,279,809	\$ 1,484,927	\$ -
\$ 5,333,356					
\$ 9,901,628					
\$ 11,432,677					
\$ -					
\$ -					

**EPCOR Water Arizona, Inc.
White Tanks Hook-Up Fee Surcredit Calculation
Effective July 1, 2016**

CALCULATION OF TRUE-UP FOR PRIOR PERIOD CUSTOMER SURCREDITS:

Line No.		
1	Calculated Amount of Surcredit Due Customers per 2014 Annual Surcredit Calculation	\$ (2,161,304) [CIAC Amortization]
2	<i>(includes 2014 prior period true-up)</i>	
3		
4	Actual Amount of Surcredit Provided to Customers	\$ 2,116,814 [Refund Summary]
5		
6		
7	Additional Surcredit Due (to)/from Customers	
8		<u>\$ (44,490) (to pg 1)</u>
9		
10		
11		
12		
13		
14		
15		